

The Validity of Company Valuation Using Discounted Cash Flow Methods

Florian Steiger

(Submitted on 25 Mar 2010 (v1), last revised 3 Apr 2010 (this version, v2))

This paper closely examines theoretical and practical aspects of the widely used discounted cash flows (DCF) valuation method. It assesses its potentials as well as several weaknesses. A special emphasize is being put on the valuation of companies using the DCF method. The paper finds that the discounted cash flow method is a powerful tool to analyze even complex situations. However, the DCF method is subject to massive assumption bias and even slight changes in the underlying assumptions of an analysis can drastically alter the valuation results. A practical example of these implications is given using a scenario analysis.

Subjects: **General Finance (q-fin.GN)**; Pricing of Securities (q-fin.PR)

Cite as: [arXiv:1003.4881v2](https://arxiv.org/abs/1003.4881v2) [q-fin.GN]

Submission history

From: Florian Steiger [[view email](#)]

[v1] Thu, 25 Mar 2010 13:13:42 GMT (594kb)

[v2] Sat, 3 Apr 2010 15:54:40 GMT (594kb)

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